

FOR RETAIL INVESTORS

WEEKLY MARKET ROUND-UP

BOND YIELDS RISE

WEEK ENDING 18 MAY 2018



OIL RISES, ITALIAN BONDS FALL

Company shares (equities) were mixed. US equities were cheered later in the week by healthy results from department store chain Macy's. Shares in energy companies climbed, as worries about oil-producing nations, Iran and Venezuela, pushed up oil prices. Brent crude topped US\$80 per barrel for the first time since 2014. Italian bonds fell to their lowest level since October 2017, following speculation that the new government, a coalition of its main two populist parties, might ask the European Central Bank to forgive €250 billion of debt, and might seek to replace the euro with a revived Italian lira.



BOND YIELDS ARE BACK IN TOWN

After years of paltry interest rates and anaemic government bond yields, during recent months the game has been changing. Last week, the yield on the 10 year US government bond topped 3.1%, its highest since 2011. And for the first time since 2008, the yield on US 3-month government bills rose to equal the dividend yield of the S&P 500 index, a benchmark of large US companies. Behind the higher bond yields is a belief that the US Federal Reserve, encouraged by a strong US economy, might raise interest rates more swiftly than previously expected. Bond yields move inversely to their prices.



EUROPE JITTERS

Over the past few years the European economy has steadily recovered, putting the 2008 recession and the 2010-13 debt crisis behind it. But last week new data revived the spectre of stagnation. Germany, the region's biggest economy, grew a mere 0.3% in the first quarter of 2018 - the weakest number in more than a year. Some officials described the poor performance, also seen in Portugal and the Netherlands, as a bump in the road, but the International Monetary Fund has highlighted risks including protectionism, a policy pursued by US President Donald Trump where he says he's putting America first.



GOOD RATING, VIETNAM

Vietnam's stock market perked up in the first part of last week (though later gave back gains) after a credit ratings agency upgraded the country's debt. Reforms, and an improving track record on economic policy, were cited as reasons. Vietnam boasts one of the most rapidly-growing economies in the world, with GDP growth forecast at 6.7% for 2018, driven by increased foreign direct investment, particularly in the manufacturing sector. Commentators hope the upgrade will attract even more investment, as well as allow the economy access to lower cost funding for its borrowing requirements.



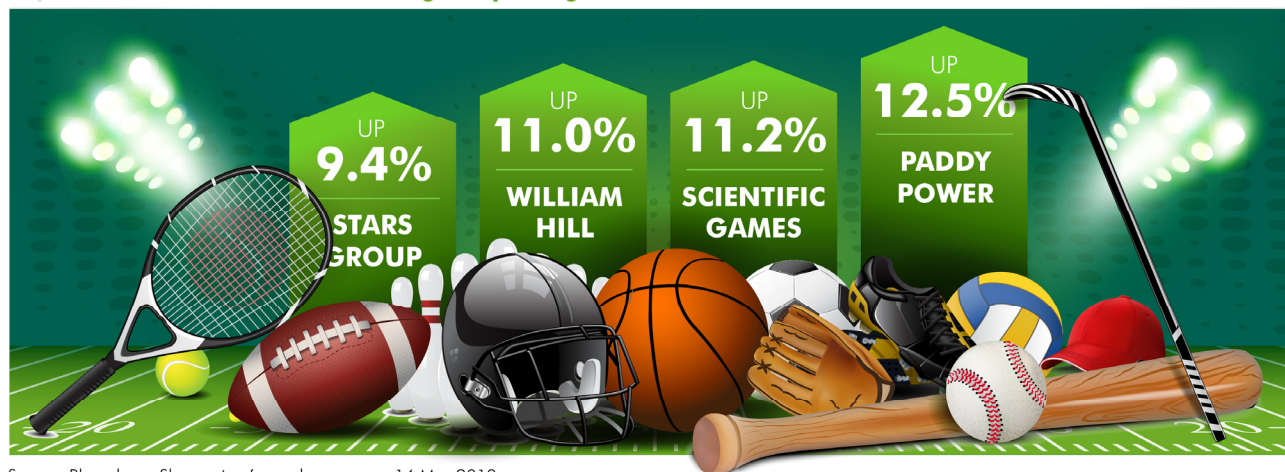
ROYAL WINDFALL?

Prince Harry's marriage to American actress Meghan Markle may have captured the world's attention as the young couple said "I do," but predictions of the nuptials providing a royal boon to the UK economy might be a touch too optimistic. In fact, Prince William's wedding to Kate Middleton in 2011 had little impact on overall GDP growth. Sales of commemorative tat from tea towels to even swimsuits are still expected to boost retail sales across the country, and let's not forget that pubs stayed open a few hours longer over the weekend too.

ALL BETS OFF



Shares of gambling companies soared after the US Supreme Court struck down a law that bans betting on sporting events across America.



Source: Bloomberg. Share prices' one-day move on 14 May 2018.

MARKET DATA – % CHANGE IN WEEK ENDING 18/05/2018

EQUITIES

	LAST VALUE	% CHANGE
FTSE All-Share (UK)	4,275	+0.85%*
MSCI All Country World	517	-0.12%*
S&P 500 (US)	2,720	+0.06%*
Stoxx 600 (Europe)	395	-0.23%*
Topix (Japan)	1,815	+0.05%*
MSCI Asia ex Japan	716	-0.79%*
MSCI Emerging Markets	1,144	-1.46%*

FIXED INCOME

Bloomberg Barclays Global Aggregate bond index, GBP-hedged – total return	582	-0.81%
10-year Gilt yield	1.54%	+0.10%**
10-year US Treasury yield	3.10%	+0.13%**
10-year Bund yield	0.62%	+0.07%**
10-year Japanese government bond yield	0.06%	+0.01%**

COMMODITIES

Gold (US\$, per troy ounce)	1,287	-2.48%
Brent Crude (US\$, per barrel)	79.69	+3.33%

CURRENCIES

GBP/USD	1.35	-0.44%
GBP/EUR	1.14	+0.96%

Source: All data sourced from Bloomberg as at 11.00 am, 18 May 2018. *In GBP terms. **Yields move inversely to prices.

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